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IN THIS ISSUE:

FY 1984 Growth Forecast Raised After Solid Second Quarter	1
Yen Resists Dollar's Rise	4
House Ways and Means Reports Priority Trade Legislation	5
JDA Head Makes the Rounds	6
Abe Holds High-Level Talks at U.N.	7
Fujitsu Takes Aim at U.S. Supercomputer Market	8

FY 1984 Growth Forecast Raised After Solid Second Quarter

The broadest measure of Japan's output of goods and services rose at a 6.7 percent annual rate in the second quarter of calendar 1984, according to figures recently released by the Economic Planning Agency (EPA). Japan's inflation-adjusted gross national product (GNP) totaled Y221 trillion (\$902 billion at Y245=\$1.00) for the April-June period, compared with Y217 trillion (\$888 billion) for the first three months of the year. The strong showing for the first six months of 1984 led EPA to raise its growth estimates for fiscal year 1984 by 1.2 percentage points to 5.3 percent.

The accompanying table summarizes the economy's second-quarter activity and highlights the strengths and weaknesses of Japan's recovery. Private fixed nonresidential investment continued to barrel along, expanding at a 10.3 percent annualized rate. A *Nihon Keizai Shimbun* survey shows that industry as a whole is planning to increase its FY 1984 capital spending by 2.7 percent

over initial budgets, which themselves were 8 percent higher than FY 1983 results. The manufacturing sector has upped planned outlays for plant and equipment from Y5.7 trillion (\$23 billion) in nominal terms to Y6 trillion (\$25 billion), a 6 percent increase.

The dip in the growth of capital spending from the first quarter's 12.3 percent rate may reflect a less frantic attitude by Japanese managers, who were caught off-guard by the strength of the U.S. recovery and poured money into new projects. On the other hand, the continuation of double-digit growth points to the underlying strength of the recovery, as industry takes an increasingly optimistic view of medium-term prospects.

The other mainstay of growth in the April-September 1984 quarter continued to be the net external sector, which grew a very healthy 36.3 percent, although this rate was off from the first quarter's 44.5 percent expansion. Exports continue to pick up speed, passing the 20 percent annual growth mark, but imports returned to double-digit levels.

While the second quarter's 6.7 percent real annual growth figure represented a decline from the previous period's 7.6 percent rate, the pace of expansion in those three months surpassed earlier government growth forecasts. On the strength of this six-month record, the EPA issued a revised forecast for FY 1984.

Revised Economic Outlook for FY 1984

(percentage increase from previous fiscal year)

	<u>Revised Forecast</u>		<u>Previous Forecast</u>	
	<u>Real</u>	<u>Nominal</u>	<u>Real</u>	<u>Nominal</u>
GNP	5.3%	6.5%	4.1%	5.9%
Private Final Consumption	3.6	6.2	4.1	7.1
Private Housing	4.0	5.9	5.2	6.6
Private Capital Spending	8.1	8.1	5.1	6.1
Government Spending	1.7	2.1	0.2	1.5
Wholesale Prices	0.6%		1.0%	
Consumer Prices	2.6		2.8	
Current-Account Surplus	\$33 billion		\$23 billion	
Trade Surplus	\$44 billion		\$34 billion	

The surge in capital investment and exports is a mixed blessing. EPA analysts feel that industry is plowing such a large percentage of its profits into plant and equipment that there is not enough for as large a wage increase as first forecast. Therefore, consumer spending, which accounts for half of Japan's GNP, will grow only 3.6 percent in real terms in the April 1984-March 1985 fiscal year instead of 4.1 percent as originally hoped. The hefty hikes in the predicted current-account and trade surpluses may rekindle trade frictions with Japan's partners, posing a political challenge to Prime Minister Nakasone.

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	<u>FY 1982</u>	<u>FY 1983</u>	<u>July- September 1983</u>	<u>October- December 1983</u>	<u>January- March 1984</u>	<u>April- June 1984</u>
Gross National Product	Y205,260.3 (3.3%)	Y212,814.6 (3.7%)	Y211,856.1 (6.2%)	Y213,500.8 (3.1%)	Y217,459.8 (7.6%)	Y221,009.0 (6.7%)
Personal Consumption Spending	108,092.5 (4.6%)	111,254.8 (2.9%)	110,848.1 (3.4%)	111,452.2 (2.2%)	112,826.6 (5.0%)	113,209.7 (1.4%)
Private Residential Construction	10,805.2 (1.3%)	10,016.6 (-7.3%)	9,904.1 (14.4%)	10,464.2 (24.6%)	10,218.7 (-9.1%)	9,993.9 (-9.1%)
Private Fixed Nonresidential Investment	35,208.3 (2.8%)	36,539.5 (3.8%)	36,002.0 (7.0%)	36,767.7 (8.8%)	37,852.4 (12.3%)	38,793.9 (10.3%)
Change in Business Inventories	1,237.9 (-30.4%)	708.9 (-42.7%)	400.4 (*)	891.7 (*)	658.8 (*)	967.6 (*)
Government Current Expenditures	19,347.3 (2.0%)	19,951.4 (3.1%)	19,843.5 (4.6%)	20,046.9 (4.2%)	20,294.6 (5.0%)	20,169.0 (-9.8%)
Government Fixed Investment	18,470.2 (1.1%)	18,458.0 (-0.1%)	18,932.2 (3.5%)	18,381.3 (-11.1%)	17,894.2 (-9.0%)	18,652.4 (18.1%)
Change in Government Inventories	-371.2 (-136.3%)	-261.8 (-29.5%)	-165.6 (*)	-676.3 (*)	-17.4 (*)	62.7 (*)
Net External Sector	12,470.2 (6.9%)	16,147.2 (29.5%)	16,091.4 (42.8%)	16,173.1 (2.0%)	17,731.9 (44.5%)	19,159.8 (36.3%)
Exports of Goods and Services and Factor Income Received	40,282.6 (0.7%)	44,053.5 (9.4%)	43,292.3 (23.0%)	44,987.1 (16.6%)	46,946.1 (18.6%)	49,201.9 (20.7%)
Imports of Goods and Services and Factor Income Paid	27,812.4 (-1.9%)	27,906.3 (0.3%)	27,200.9 (12.9%)	28,814.0 (25.9%)	29,214.2 (5.7%)	30,042.1 (11.8%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

Weak performances again plagued the residential housing and personal consumption sectors in the April-June quarter, indicating the persistent unevenness of the recovery. All things considered, however, the Japanese economy will continue to grow at a steady clip, paced by strong domestic business investment and insatiable foreign demand.

Jon Choy

Yen Resists Dollar's Rise

September was a banner month for the high-flying U.S. dollar: it broke exchange rate records against every major European currency. Only the yen was able to resist the dollar's charge as it flirted with the Y250=\$1.00 barrier but failed to pierce it. Market observers suggested that Europeans had lost faith in their own currencies, sparking the stampede into dollars, and that European and Japanese speculators acted more boldly, depressing the yen and other currencies.

The dollar was weakest at the beginning of September and then strengthened steadily against the Japanese yen, British pound, German mark and French and Swiss francs, hitting its highest point in the third week before receding. At the end of the first day of September's trading, a dollar bought 0.768 pounds, 2.912 marks, 8.913 French francs or 2.427 Swiss francs on the New York foreign exchange market. On September 20, the dollar set new records against its Atlantic brethren, trading for 0.821 pounds (a 6.4 percent gain), 3.140 marks (a 7.8 percent appreciation), 9.628 French francs (an 8.02 percent jump) and 2.568 Swiss francs (a 5.82 percent rise). The West German central bank tried in vain to hold back the dollar's advance, buying \$250 to \$500 million worth of marks during the first week of trading. As the impotence of intervention, even on this large scale, became apparent, European monetary officials left the market and let their currencies float.

After gaining 1.71 percent against the dollar in August (calculated on an end-of-month to end-of-month basis), the yen lost 1.74 percent in September. The dollar hit a 22-month high against the yen on the 18th, rising to Y248.65 before closing at Y248.30 -- a 2.58 percent appreciation over the first of the month's Y242.05 figure. Ending September at Y245.50, the yen's average median rate was Y245.24, nearly a full three-yen gain over the previous month's average of Y242.30. The daily volume averaged a moderately heavy \$1.510 billion, up from August's \$1.420 billion average, mostly due to five days of trading in excess of \$2 billion.

A comparison of the dollar's September gains against the five major foreign currencies demonstrates the yen's strength. Rising 4.9 percent over the Swiss franc, 5.2 percent vis-a-vis the French franc, 5.4 percent against the pound and 6.3 percent against the West German mark, the greenback made only minor inroads against the yen, gaining 1.74 percent. When the dollar's high-water marks are compared, the difference becomes even greater -- the yen yielding a maximum 2.58 percent, while the European monies lost from 5.82 percent to 8.02 percent at their low points. The yen's resistance is clearly due to the strength of Japan's economy and its growth prospects. The Bank of Japan found no need to intervene, and bank Governor Maekawa expressed confidence that there were no underlying factors that might depress the yen.